



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

NOV 15 2011

Office of Management and Budget
Attn: Ms. Regina Kearney
New Executive Office Building
Office of Federal Financial Management
725 17th St., NW, Suite 6025
Washington, DC 20503

Dear Ms. Kearney:

In compliance with the *Treasury Financial Manual*, Part 2, Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States," the Office of Inspector General (OIG) is providing the *Independent Auditor's Report on the U.S. Department of State 2011 and 2010 Special-Purpose Financial Statements* (OIG Report No. AUD/FM-12-04). This report was prepared by Kearney & Company, P.C., an independent certified public accounting firm, at OIG's direction. Also provided are the following:

- GF003F Closing Package Financial Statement Report
- GF004F Trading Partner Summary Note Report
- GF003G Closing Package Line Reclassification Summary Report
- GF006 FR Notes Report
- GF007 Other FR Data Report
- Management Representation Letter on the Closing Package (including Summary of Uncorrected Misstatements)

For your information, we have provided the Department of the Treasury and the Government Accountability Office an identical letter.

Sincerely,

Harold W. Geisel
Deputy Inspector General

Enclosures: As stated.

cc: RM – (b) (6)

RM/DCFO – (b) (6)

**INDEPENDENT AUDITORS' REPORT ON THE U.S. DEPARTMENT OF STATE
2011 AND 2010 SPECIAL-PURPOSE FINANCIAL STATEMENTS
AUD/FM-12-04**

We have audited the accompanying reclassified balance sheets as of September 30, 2011 and 2010, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the U.S. Department of State (Department). These special-purpose financial statements are the responsibility of Department management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

Except as described in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated November 15, 2010, we expressed an opinion that the special-purpose financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2010, and its net cost of operations and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700.

During FY 2011, our audit procedures identified potentially material amounts relating to after-employment benefits provided to locally employed overseas staff that had not been previously reported in the Department's special-purpose financial statements. These issues affect FY 2011 and FY 2010 balances and activity. The Department was unable to provide timely and complete evidential matter to enable us to perform audit procedures to satisfy ourselves that actuarial liabilities and benefit plan assets relating to after-employment benefit programs and their related effect on net position were free of material misstatements. As a result of these limitations, our present opinion on the Department's FY 2010 special-purpose balance sheet and related statement of changes in net position, as presented herein, is different from that expressed in our previous report. Our previous opinion should not be relied upon.

As discussed in Note 17 to the FY 2011 special-purpose financial statements, the Department restated its FY 2010 special-purpose financial statements to correct errors identified during the course of the FY 2011 special-purpose financial statement audit related to amounts reported as after-employment actuarial liabilities, benefit plan assets, and net position.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence related to after-employment benefits provided to locally employed overseas staff, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2011 and 2010, and its net cost of operations and changes in net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of TFM, Volume I, Part 2, Chapter 4700.

The special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of TFM, Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury (Treasury) and the Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government* and are not intended to be a complete presentation of the Department's financial statements.

The information included in the Other Data Report is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but it is supplementary information required by TFM, Volume I, Part 2, Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in the Department's special-purpose financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports dated November 14, 2011, on our consideration of the Department's internal control over financial reporting and compliance and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audits.

In planning and performing our audits of the special-purpose financial statements, we also considered the Department's internal control over the financial reporting process for the special-purpose financial statements and compliance with TFM Volume I, Part 2, Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with TFM, Volume I, Part 2, Chapter 4700, requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's special-purpose financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with TFM, Volume I, Part 2, Chapter 4700, requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with TFM, Volume I, Part 2, Chapter 4700, requirements were not objectives of our audits of the special-purpose financial statements, and accordingly, we do not express such opinions.

This report is intended solely for the information and use of the Department, the Office of Inspector General, the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is stylized and cursive.

November 15, 2011